

SUNNYSIDE CITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

SUNNYSIDE CITY
BASIC FINANCIAL STATEMENTS
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>PAGE</u>
<u>OPINION</u> Independent Auditors' Report	1-2
<u>MD&A</u> Management's Discussion and Analysis	3-10
 <u>BASIC FINANCIAL STATEMENTS</u>	
Government-wide Financial Statements:	
EXHIBIT 1 Statement of Net Assets	11
EXHIBIT 2 Statement of Activities	12
Fund Financial Statements:	
EXHIBIT 3 Balance Sheet - Governmental Funds	13
EXHIBIT 4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
EXHIBIT 5 Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
EXHIBIT 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
EXHIBIT 7 Statement of Net Assets - Proprietary Funds	17-18
EXHIBIT 8 Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	19
EXHIBIT 9 Statement of Cash Flows - Proprietary Funds	20-21
Notes to the Financial Statements	22-39

SUNNYSIDE CITY
BASIC FINANCIAL STATEMENTS
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>PAGE</u>
 <u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
EXHIBIT 10 Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	40-41
 <u>COMBINING AND INVIDIVIDUAL FUND STATEMENTS AND SCHEDULES</u>	
EXHIBIT 11 Combining Balance Sheet - Nonmajor Governmental Funds	42
EXHIBIT 12 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	43
 <u>REPORTS ACCORDING TO GOVERNMENT AUDITING STANDARDS</u>	
Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	44-45
 <u>SUPPLEMENTAL STATE COMPLIANCE</u>	
Auditors' Report on State Compliance for State Grants	46-47

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.

R. KIRT RICH, C.P.A.

GREG MARSING, C.P.A.

DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
Sunnyside City
Sunnyside City, Utah 84539

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sunnyside City, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sunnyside City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

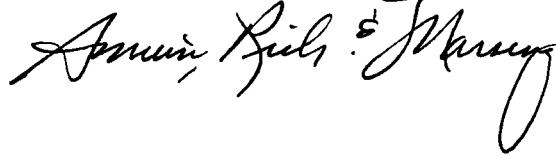
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sunnyside City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated December 8, 2006, on our consideration of Sunnyside City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 40 through 41, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sunnyside City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of Sunnyside City. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

December 8, 2006

**SUNNYSIDE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

Our discussion and analysis of Sunnyside City's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- ❖ The City's net assets increased \$179,968 as a result of this year's operations. Net assets of our governmental activities increased by \$74,201, which is a 394 percent increase over last years and our net assets of our business-type activities increased by \$105,767, which is a 5.05 percent increase over last year.
- ❖ Total expenses of \$397,184 were \$287,037 more than the program revenues received of \$110,147, for governmental activities.
- ❖ In the City's business-type activities, revenues of \$339,360 were \$131,233 more than the expenses of \$208,127 for these types of activities.
- ❖ Property Tax revenue for the year ended June 30, 2006 was \$184,887, Sales and Franchise Tax was \$67,541. Property Tax revenue increase by \$58,141, while Sales and Franchise Tax increased by \$2,379 from the previous fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial reports: Statement of Net Assets and the Statement of Activities (on pages 11-12) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

REPORTING THE CITY AS A WHOLE

Our analysis of the City as a whole begins on page 11. The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps determine if the City is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

REPORTING THE CITY AS A WHOLE (Continued)

These two statements report the City's *net assets* and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the City's financial position. Increases or decreases in the City's net assets are one indicator of whether the financial position of the City is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, water lines, sewer lines, drainage systems, and other capital assets to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

Governmental activities - Most of the City's basic services are reported here, including the general and administration cost, contributions to other agencies, police, fire, public works, parks department and interest on long-term debt. Property taxes, franchise fees, fines, sales taxes, charges for services and state and federal grants finance most of these activities.

Business-type activities - The City charges a fee to customers to help cover all or most of the cost of water and sewer services it provides. The City's water and sewer services are reported in an enterprise fund, which is shown as business-type activities.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City established other funds to help it control and manage money for particular purposes (debt service and capital projects payments) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – *governmental and proprietary* – use different accounting approaches.

Governmental funds—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds*, through a reconciliation provided in a separate statement.

Proprietary funds – When the City charges customers for the services it provides – to outside customers – these services are generally reported in proprietary funds. Proprietary funds are reported the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's Enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

The City has not acted in a trustee capacity for the year ended June 30, 2006.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. The City's Statement of Net Assets, which decreased during the current calendar year, presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. The government-wide financial statements include all of the City's activity. The analysis shown below, focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$ 267,753	\$ 265,842	\$ 176,270	\$ 279,510	\$ 444,023	\$ 545,352
Capital assets	207,453	166,289	3,256,574	3,189,054	3,464,027	3,355,343
Total assets	<u>\$ 475,206</u>	<u>\$ 432,131</u>	<u>\$ 3,432,844</u>	<u>\$ 3,468,564</u>	<u>\$ 3,908,050</u>	<u>\$ 3,900,695</u>
Long-term debt						
outstanding	\$ 149,000	\$ 122,003	\$ 1,248,712	\$ 1,218,712	\$ 1,397,712	\$ 1,340,715
Other liabilities	361,525	271,246	90,360	50,313	451,885	321,559
Total liabilities	<u>\$ 510,525</u>	<u>\$ 393,249</u>	<u>\$ 1,339,072</u>	<u>\$ 1,269,025</u>	<u>\$ 1,849,597</u>	<u>\$ 1,662,274</u>
Net assets:						
Invested in capital assets,						
net of debt	\$ 56,410	\$ 42,608	\$ 1,937,939	\$ 1,940,342	\$ 1,994,349	\$ 1,982,950
Restricted	20,619	37,885	67,475	193,500	88,094	231,385
Unrestricted	(112,348)	(41,611)	88,358	65,697	(23,990)	24,086
Total net assets	<u>\$ (35,319)</u>	<u>\$ 38,882</u>	<u>\$ 2,093,772</u>	<u>\$ 2,199,539</u>	<u>\$ 2,058,453</u>	<u>\$ 2,238,421</u>

Net Assets of the City's governmental activities increased by 394 percent (\$38,882 compared to \$(35,319). *Unrestricted* net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—is (\$41,611) at the end of June 30, 2006.

Government-wide financial statements (Continued)

Net Assets of our business-type activities increased 5.05 percent (\$2,093,772 compared to \$2,199,539). Unrestricted net assets for this group, amount to \$65,697. The City uses their unrestricted net assets to finance the continuing operations of the water and sewer fund.

Table 2
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Revenues						
Program Revenues:						
Charges for services	\$ 69,454	\$ 74,757	\$ 220,251	\$ 189,360	\$ 289,705	\$ 264,117
Operating grants and cont.	26,685	35,390			26,685	35,390
Capital grants and cont.				150,000		150,000
General Revenues:						
Property taxes	126,746	184,887			126,746	184,887
Sales and franchise taxes	65,162	67,541			65,162	67,541
Other general revenue	19,951	35,310		4,534	19,951	39,844
Total revenues	\$ 307,998	\$ 397,885	\$ 220,251	\$ 343,894	\$ 528,249	\$ 741,779
Expenses						
Program Expenses						
General government	\$ 144,083	\$ 127,860			\$ 144,083	\$ 127,860
Public safety	156,762	167,666			156,762	167,666
Highways and public improv.	60,754	57,998			60,754	57,998
Parks and recreation	24,400	23,456			24,400	23,456
Cemetery	9,594	1,427			9,594	1,427
Intergovernmental		7,928				7,928
Interest on long-term debt	13,091	10,849			13,091	10,849
Water and sewer			\$ 193,577	\$ 208,127	193,577	208,127
Total expenses	\$ 408,684	\$ 397,184	\$ 193,577	\$ 208,127	\$ 602,261	\$ 605,311
Excess (deficiency) before transfers and special items	\$ (100,686)	\$ 701	\$ 26,674	\$ 135,767	\$ (74,012)	\$ 136,468
Special items		43,500				43,500
Transfers		30,000		(30,000)		
Change in net assets	\$ (100,686)	\$ 74,201	\$ 26,674	\$ 105,767	\$ (74,012)	\$ 179,968
Beginning net assets	65,367	(35,319)	2,067,098	2,093,772	2,132,465	2,058,453
Ending net assets	\$ (35,319)	\$ 38,882	\$ 2,093,772	\$ 2,199,539	\$ 2,058,453	\$ 2,238,421

Government-wide financial statements (Continued)

The City's operational goals for future years is to continue to strive to use the allotted funds in the best interest of the City and those who are served by the City's operations. The City has taken steps to increase revenues by increase property tax rates, water and sewer rates and private contribution from a locate business. In the past year the City has eliminated deficits in both the debt service and general fund. As revenues increase, the City will continue to strengthen fund balances.

Governmental Activities

Revenues for the City's governmental type activities, increased \$89,887, a 29.18 percent increase. Total expenses using these funds decreased \$11,500, a decrease of 2.81 percent. The largest increase in revenue was in tax revenue proceeds compared with the prior years. The largest decrease in expenditures occurred in General Government. The largest sources of funds are Property, Sales and Franchise taxes and charges for services. These revenues, and other miscellaneous revenues, enabled the City to meet most of their current obligations. During the current year the City received a special contribution from the Co-generation plant in the amount of \$43,500. Because of an overall increase in the revenues of approximately 29.18 percent and a decrease of approximately 2.81 percent in expenditures, the City experienced an increase in net assets for governmental activities of \$74,201 in the fiscal year 2006.

The cost of all governmental activities this year was \$397,184. As shown in the Statement of Activities on page 12, property, sales and franchise tax revenue along with assessments paid for the majority of these activities. Overall, the City's governmental program revenues of \$110,147 paid 27.73 percent of the governmental activities expenditures.

Costs of the City are centered within several programs—General government, Public safety, Highways and public improvements, Parks and recreation, Cemetery, Intergovernmental and interest on long-term debt. The net cost of expenditures (over) specific program revenues shows the financial burden that utilizes the Property taxes, Sales and franchise taxes, assessments and miscellaneous revenues.

Business-type Activities

Revenues of the City's business-type activities increased 56.13 percent (\$343,894 compared to \$220,251) while expenses increased 7.516 percent (\$208,127 compared to \$193,577). The major changes for the business-type activities, is an increase in charges for services in comparison to the prior year. This increase is due to a \$150,000 grant received by the City.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised their budget once. The original budget was adopted on June 21, 2005 and was adjusted on June 20, 2006. The general fund budget was amended from \$364,380 to \$365,440. The differences in the original budget and final amended budget are summarized as follows: 1) increase in revenue from property taxes (\$53,901), increase in revenue from charges for services (\$3,800), and a decrease in miscellaneous revenue (\$3,800). 2) an increase in expenditures for general government (\$60), decrease in expenditures for Public safety (\$1,000), and an increase in expenditures for Highways and public improvements (\$2,000).

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

The actual charges for expenditures were \$353,316. This was \$12,124 below the final budget amounts. The most significant positive variance (\$6,714) occurred in highways and public improvements function.

Resources for revenues were \$436,458. This was (\$103,346) above the final budgeted amount. The most significant positive variance (\$12,325) occurred in charges for services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2006, the City had \$3,355,343 invested in a broad range of capital assets, including water stock, land, buildings, improvements other than buildings, machinery and equipment, and infrastructure (see Table 3 below). This amount represents a net decrease (including additions and deletions) of \$108,684, or a 3.14 percent decrease over the previous year.

Table 3
Capital Assets at Year-End
(Net of Depreciation)
June 30, 2005

	Governmental Activities		Business-type Activities		Totals Primary Government	
	2005	2006	2005	2006	2005	2006
Water stock			\$ 441,375	\$ 441,375	\$ 441,375	\$ 441,375
Land	\$ 9,337	\$ 9,337			9,337	9,337
Buildings	39,259	34,981			39,259	34,981
Improvements other than buildings	46,991	44,732	2,813,135	2,736,414	2,860,126	2,781,146
Machinery and equipment	111,866	77,239	2,064	1,265	113,930	78,504
Work in progress				10,000		10,000
Total assets activities	<u>\$ 207,453</u>	<u>\$ 166,289</u>	<u>\$ 3,256,574</u>	<u>\$ 3,189,054</u>	<u>\$ 3,464,027</u>	<u>\$ 3,355,343</u>

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

This year's major additions included:

Water tank improvements - Work in progress	\$ 10,000
Paid for with grant proceeds	
	<u>\$ 10,000</u>

The City's fiscal year 2007 capital budget calls for spending on capital projects, principally for improvements made to the infrastructure and purchases of necessary equipment. More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Long-term debt

As of June 30, 2006, the City had \$1,370,715 in bonds, and note payable outstanding. The debt represents revenue bonds secured solely by specified revenue sources. The following table (table 4) shows outstanding debt for the current and previous years.

Table 4
Outstanding Debt as of
June 30, 2005

	Governmental Activities		Business-type Activities		Totals Primary Government	
	2005	2006	2005	2006	2005	2006
Bonds payable	\$ 149,000	\$ 122,003	\$ 1,314,712	\$ 1,248,712	\$ 1,463,712	\$ 1,370,715

There has been no new debt issued during the current fiscal year. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FORECAST AND FUTURE BUDGET

Sunnyside City's Mayor and Council consider many factors in preparing their annual budgets. The City's revenues have maintained a relative consistent level over the last few years showing little or no growth except for the increase in tax rates. The lack of growth has made it harder for the Mayor and City Council to maintain the level of services to the residents of the City. In an effort to remove deficits in fund balances the City has raised property taxes and water and sewer rates in the City. The City has also secured private contributions from a local industrial business located within the City limits to be paid over the next two years.

Sunnyside City experiences many of the same problems as other Eastern Utah communities with slow or negative economic activity. The General Fund budget is projected to be \$427,498, which is an increase over the previous fiscal year due to increased property tax revenues.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our community with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Recorder, Polly Sanderson at, P.O. Box 69, Sunnyside, Utah 84539.

SUNNYSIDE CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
Cash and cash equivalents		\$ 58,746	\$ 58,746
Investments, at cost	\$ 33,904		33,904
Investments - restricted	37,885	193,500	231,385
Accounts receivable (net)		27,264	27,264
Taxes receivable	172,346		172,346
Miscellaneous receivable	13,742		13,742
Bond issuance costs	7,965		7,965
Capital assets (net of accumulated depreciation):			
Water stock		441,375	441,375
Land	9,337		9,337
Buildings	34,981		34,981
Improvements other than buildings	44,732	2,736,414	2,781,146
Equipment	77,239	1,265	78,504
Work in progress		10,000	10,000
Total assets	\$ 432,131	\$ 3,468,564	\$ 3,900,695
<u>LIABILITIES</u>			
Cash deficit	\$ 72,265		\$ 72,265
Accounts payable	2,137	\$ 150	2,287
Salaries payable	7,009		7,009
Accrued liabilities	5,060		5,060
Bond interest payable	1,678	3,922	5,600
Deferred revenue	172,346		172,346
Noncurrent liabilities:			
Customer deposits payable		10,525	10,525
Revenue bonds payable- Due within one year	28,000	68,000	96,000
Revenue bonds payable - Due in more than one year	94,003	1,180,712	1,274,715
Compensated absences	10,751	5,716	16,467
Total liabilities	\$ 393,249	\$ 1,269,025	\$ 1,662,274
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 42,608	\$ 1,940,342	\$ 1,982,950
Restricted for:			
Class "C" Roads	37,885		37,885
Debt Service		193,500	193,500
Unrestricted	(41,611)	65,697	24,086
Total net assets	\$ 38,882	\$ 2,199,539	\$ 2,238,421

"The notes to the financial statements are an integral part of this statement."

SUNNYSIDE CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
Primary government:						
Governmental activities:						
General government	\$ 127,860	\$ 8,612			\$ (119,248)	\$ (119,248)
Public safety	167,666	61,211	\$ 17,898		(88,557)	(88,557)
Highways and public improvements	57,998		17,492		(40,506)	(40,506)
Parks and recreation	23,456	1,404			(22,052)	(22,052)
Cemetery	9,355	3,530			(5,825)	(5,825)
Interest on long-term debt	10,849				(10,849)	(10,849)
Total governmental activities	\$ 397,184	\$ 74,757	\$ 35,390	\$...	\$ (287,037)	\$ (287,037)
Business-type activities:						
Water and sewer fund	\$ 208,127	\$ 189,360		\$ 150,000	\$	\$ 131,233
Total business-type activities	\$ 208,127	\$ 189,360	\$...	\$ 150,000	\$	\$ 131,233
Total primary government	\$ 605,311	\$ 264,117	\$ 35,390	\$ 150,000	\$ (287,037)	\$ (155,804)
General revenues:						
Property taxes					\$ 184,887	\$ 184,887
Sales taxes					44,225	44,225
Franchise taxes					23,316	23,316
Unrestricted investment earnings					4,203	\$ 4,534
Assessments					15,967	15,967
Miscellaneous					16,180	16,180
Loss on sale of capital assets					(1,040)	(1,040)
Special item - Contribution from power plant					43,500	43,500
Transfers in (out)					30,000	(30,000)
Total general revenues					\$ 361,238	\$ (25,466)
Change in net assets					\$ 74,201	\$ 105,767
Net assets - beginning					(35,319)	2,093,772
Net assets - ending					\$ 38,882	\$ 2,199,539
						\$ 2,238,421

"The notes to the financial statements are an integral part of this statement."

**SUNNYSIDE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash		\$ 23,636	\$ 23,636
Investments restricted	\$ 37,885		37,885
Investments, at cost	33,904		33,904
Receivables (net):			
Taxes	172,346		172,346
Miscellaneous	13,742		13,742
Total assets	<u>\$ 257,877</u>	<u>\$ 23,636</u>	<u>\$ 281,513</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Cash deficit	\$ 95,901		\$ 95,901
Accounts payable	2,137		2,137
Salaries payable	7,009		7,009
Accrued liabilities	5,060		5,060
Deferred revenue	172,346		172,346
Total liabilities	<u>\$ 282,453</u>	<u>\$...</u>	<u>\$ 282,453</u>
Fund balances:			
Reserved for:			
Class "C" Roads	\$ 37,885		\$ 37,885
Unreserved, reported in:			
General fund	(62,461)		(62,461)
Debt service fund		\$ 23,636	23,636
Total fund balances	<u>\$ (24,576)</u>	<u>\$ 23,636</u>	<u>\$ (940)</u>
Total liabilities and fund balances	<u>\$ 257,877</u>	<u>\$ 23,636</u>	<u>\$ 281,513</u>

"The notes to the financial statements are an integral part of this statement."

SUNNYSIDE CITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental fund types: \$ (940)

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	9,337	
Buildings		34,981	
Improvements other than buildings		44,732	
Equipment		77,239	166,289

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bond interest payable	\$	(1,678)	
Bond issuance costs		7,965	
Revenue bonds payable - current portion		(28,000)	
Revenue bonds payable - one year		(94,003)	
Compensated absences		(10,751)	(126,467)

Net assets of governmental activities \$ 38,882

"The notes to the financial statements are an integral part of this statement."

SUNNYSIDE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$ 252,428		\$ 252,428
Licenses and permits	2,568		2,568
Intergovernmental	35,390		35,390
Charges for services	66,825		66,825
Fines and forfeitures	1,084		1,084
Assessment fees		\$ 15,967	15,967
Miscellaneous revenue	78,163		78,163
Total revenues	<u>\$ 436,458</u>	<u>\$ 15,967</u>	<u>\$ 452,425</u>
EXPENDITURES:			
Current:			
General government	\$ 115,108		\$ 115,108
Public safety	153,567		153,567
Highways and public improvements	57,336		57,336
Parks, recreation, and public property	19,377		19,377
Cemetery	7,928		7,928
Debt service:			
Principal retirement		\$ 134,997	134,997
Interest and fiscal charges		11,214	11,214
Total expenditures	<u>\$ 353,316</u>	<u>\$ 146,211</u>	<u>\$ 499,527</u>
Excess revenues over (under) expenditures	<u>\$ 83,142</u>	<u>\$ (130,244)</u>	<u>\$ (47,102)</u>
OTHER FINANCING SOURCES (USES):			
Transfer in	\$ 80,000	\$ 65,195	\$ 145,195
Transfer out	(35,195)	(80,000)	(115,195)
Tax anticipation note proceeds		108,000	108,000
Total other financing sources (uses)	<u>\$ 44,805</u>	<u>\$ 93,195</u>	<u>\$ 138,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 127,947</u>	<u>\$ (37,049)</u>	<u>\$ 90,898</u>
FUND BALANCES - beginning of year	<u>(152,523)</u>	<u>60,685</u>	<u>(91,838)</u>
FUND BALANCES - end of year	<u>\$ (24,576)</u>	<u>\$ 23,636</u>	<u>\$ (940)</u>

"The notes to the financial statements are an integral part of this statement."

SUNNYSIDE CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 90,898
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(30,124)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(11,040)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	25,005
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(538)
Change in net assets of governmental activities	\$ <u>74,201</u>

"The notes to the financial statements are an integral part of this statement."

SUNNYSIDE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS <u>WATER AND SEWER FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 58,746	\$ 58,746
Investments restricted	193,500	193,500
Receivables - net		
Accounts	<u>27,264</u>	<u>27,264</u>
Total current assets	<u>\$ 279,510</u>	<u>\$ 279,510</u>
Noncurrent assets:		
Water stock	\$ 441,375	\$ 441,375
Improvements other than buildings	3,124,100	3,124,100
Machinery and equipment	3,996	3,996
Work in process	10,000	10,000
Less: Accumulated depreciation	<u>(390,417)</u>	<u>(390,417)</u>
Total noncurrent assets	<u>\$ 3,189,054</u>	<u>\$ 3,189,054</u>
Total assets	<u>\$ 3,468,564</u>	<u>\$ 3,468,564</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 150	\$ 150
Accrued interest payable	3,922	3,922
Current portion - long-term debt	<u>68,000</u>	<u>68,000</u>
Total current liabilities	<u>\$ 72,072</u>	<u>\$ 72,072</u>

"The notes to the financial statements are an integral part of this statement."

SUNNYSIDE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS WATER AND SEWER FUND	TOTAL
Noncurrent liabilities:		
Compensated absences	\$ 5,716	\$ 5,716
Customer deposits payable	10,525	10,525
Revenue bonds payable	<u>1,180,712</u>	<u>1,180,712</u>
Total noncurrent liabilities	<u>\$ 1,196,953</u>	<u>\$ 1,196,953</u>
Total liabilities	<u>\$ 1,269,025</u>	<u>\$ 1,269,025</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 1,940,342	\$ 1,940,342
Restricted	193,500	193,500
Unrestricted	<u>65,697</u>	<u>65,697</u>
Total net assets	<u>\$ 2,199,539</u>	<u>\$ 2,199,539</u>

"The notes to the financial statements are an integral part of this statement."

SUNNYSIDE CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS WATER AND SEWER FUND	TOTAL
Operating revenues:		
Charges for sales and services	\$ 189,360	\$ 189,360
Total operating revenues	<u>\$ 189,360</u>	<u>\$ 189,360</u>
Operating expenses:		
Employee salaries	\$ 30,499	\$ 30,499
Employee benefits	18,417	18,417
Contractual and professional services	15,927	15,927
Supplies	781	781
Materials	32,219	32,219
Utilities	1,031	1,031
Depreciation	77,520	77,520
Garbage collection	21,046	21,046
Insurance	2,175	2,175
Total operating expenses	<u>\$ 199,615</u>	<u>\$ 199,615</u>
Operating income (loss)	<u>\$ (10,255)</u>	<u>\$ (10,255)</u>
Nonoperating revenues (expenses):		
Interest revenue	\$ 4,534	\$ 4,534
Interest expense and fiscal charges	(8,512)	(8,512)
Grant proceeds	150,000	150,000
Total nonoperating revenues (expenses)	<u>\$ 146,022</u>	<u>\$ 146,022</u>
Income (loss) before transfers	<u>\$ 135,767</u>	<u>\$ 135,767</u>
Transfer In (Out):		
Transfers out	\$ (30,000)	\$ (30,000)
Total transfers in (out)	<u>\$ (30,000)</u>	<u>\$ (30,000)</u>
Change in net assets	\$ 105,767	\$ 105,767
Total net assets - beginning	<u>2,093,772</u>	<u>2,093,772</u>
Total net assets - ending	<u><u>\$ 2,199,539</u></u>	<u><u>\$ 2,199,539</u></u>

"The notes to the financial statements are an integral part of this statement."

**SUNNYSIDE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	ENTERPRISE FUNDS	
	WATER AND SEWER FUND	TOTAL
Cash Flows From Operating Activities:		
Cash receipts from customers	\$ 183,909	\$ 183,909
Cash payments to suppliers	(77,226)	(77,226)
Cash payments to employees	(48,916)	(48,916)
Net cash provided (used) by operating activities	\$ 57,767	\$ 57,767
Cash Flows From Noncapital Financing Activities:		
Transfers to other funds	\$ (30,000)	\$ (30,000)
Net cash provided (used) by noncapital financing activities	\$ (30,000)	\$ (30,000)
Cash Flows From Capital and Related Financing Activities:		
Acquisition of capital assets	\$ (10,000)	\$ (10,000)
Interest paid on revenue bonds	(8,512)	(8,512)
Principal paid on revenue bonds	(66,000)	(66,000)
Grants received	150,000	150,000
Net cash provided (used) by capital and related financing activities	\$ 65,488	\$ 65,488
Cash Flows From Investing Activities:		
Interest and dividends received	\$ 4,534	\$ 4,534
Net cash provided (used) by investing activities	\$ 4,534	\$ 4,534
Net increase (decrease) in cash and cash equivalents	\$ 97,789	\$ 97,789
Cash and cash equivalents, July 1	154,457	154,457
Cash and cash equivalents, June 30	\$ 252,246	\$ 252,246

"The notes to the financial statements are an integral part of this statement."

**SUNNYSIDE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>ENTERPRISE FUNDS</u>	
	<u>WATER AND SEWER FUND</u>	<u>TOTAL</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (10,255)	\$ (10,255)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	\$ 77,520	\$ 77,520
(Increase) Decrease in utility receivables	(5,451)	(5,451)
Increase (Decrease) in accounts payable	(5,847)	(5,847)
Increase (Decrease) in customer deposits payable	1,800	1,800
Total adjustments	\$ 68,022	\$ 68,022
Net cash provided (used) by operating activities	\$ 57,767	\$ 57,767

"The notes to the financial statements are an integral part of this statement."

SUNNYSIDE CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Sunnyside City (the City) is a municipal corporation governed by an elected mayor and five-member council. The City provides the following services: public safety, highways and public improvements, parks and recreation, cemetery, and general administrative services. In addition, the City owns and operates culinary water and sewer systems.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full-accrual accounting for all of the City's activities, including infrastructure (roads, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

A. Reporting Entity

The accompanying financial statements include the City, which is a political subdivision with corporate powers created under Utah State law, referred to as the financial reporting entity. The governing body is comprised of the council and the mayor. As required by generally accepted accounting principles, these financial statements present the City (the primary government), which has no component units.

B. Component Units

In evaluating how to define the reporting entity, the City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Component units are separate legal entities for which the City is considered to be financially accountable.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

B. **Component Units (Continued)**

The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the Governmental Accounting Standards Board's (GASB) Statement No. 14. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the city to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the City.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, was implemented by the City for fiscal year ended June 30, 2004. Statement 39, an amendment of Statement No. 14, provides additional criteria in determining whether certain legally separate organizations, for which the City is not financially accountable, should be reported as component units based upon the nature and significance of their relationship with the City. An organization is reported as a component unit of the City, if all three of the following criteria are met: 1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, 2) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and 3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

There were no potential component units, which met all of the criteria outlined in Statement 39 or Statement 14.

C. **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activity) report information on all of the non-fiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses have a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, property taxes, franchise taxes, interest, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are recognized as revenue in the year for which they are levied. Amounts received or recognized as receivable at fiscal year end are included in the financial statements as taxes receivable and deferred revenue.

Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

- General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those that are required to be accounted for in another fund.

The City's non-major governmental funds include a debt service fund, and a capital projects fund. The debt service fund is used to account for the accumulation of resources for, and payment of general long-term debt principal, interest and related costs. The capital projects fund accounts for financial resources to be used for the acquisition of equipment and construction of major capital facilities (other than those financed by proprietary funds and trust funds).

The City reports the following major proprietary funds:

- Water and Sewer Fund - The Water and Sewer Fund accounts for the resources and expenditures in the operating and maintain of providing water and sewer services to the resident of the City.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

D. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The City's has no non-major enterprise funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

E. **Budgetary Data**

Budgets are presented on the modified accrual basis of accounting for all governmental funds and on the accrual basis for proprietary funds. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- 1) During May of each year, the Mayor submits to the City Council a proposed operating budget for the next fiscal year commencing July 1st. The operating budget includes proposed expenditures and the proposed sources of revenues. A final budget for the current year ending June 30 is also included.
- 2) Copies of the proposed budget are made available for public inspection and reviewed by the citizens of the City.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

E. Budgetary Data (Continued)

- 3) If the City does not exceed the certified tax rate, a public hearing is held prior to June 22 and the budget is legally adopted through passage of a resolution. If the City exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.
- 4) Once adopted, the budget can be amended by subsequent City Council action. The City Council can approve reductions in appropriations, but increases in appropriations, by fund, require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.
- 5) Minor interim adjustments in estimated revenues and appropriations during the year ended June 30, 2006, have been included in the final budget approved by the City Council, as presented in the financial statements.
- 6) Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund and the fund level for all other funds.

F. Cash and Cash Equivalents

The City considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF), to be cash and cash equivalents.

G. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

H. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, infrastructure assets (e.g., roads, curb, gutter, sidewalks, and similar items), and water stock, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of \$5,000.00 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

H. **Capital Assets (Continued)**

Buildings, improvements, equipment, and infrastructure assets of the City are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-35
Improvements	10-40
Machinery and equipment	5-10
Infrastructure	25

I. **Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused sick pay, vacation and other employee benefits. An estimate of sick leave liability and vacation pay is accrued when incurred in the government-wide financial statements and proprietary funds and reported as a liability.

Accrued unpaid sick pay, vacation and other employee benefits, which vest to the employees in the government-wide financial statements for governmental activities total \$10,751 and for proprietary funds total \$5,716.

J. **Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. **Net Assets/Fund Balances**

The difference between assets and liabilities is "Net Assets" on the government-wide and proprietary fund financial statements and "Fund Balance" on the governmental fund financial statements. Net assets are divided into invested in capital assets (net of related debt), restricted, and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

2. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and cash equivalents. In addition, cash is separately held by individual funds.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7) in handling its depository and investment transactions. The City does not have separate policies that address the specific types of deposit and investment risks to which the City is exposed.

Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires the depositing of City funds in a *qualified depository*. The Act defines a *qualified depository* as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The City's deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The City's deposits at June 30, 2006, were \$(24,235). Of these deposits, none were insured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act. This Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments.

2. DEPOSITS AND INVESTMENTS (Continued)

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees – of the PTIF are allocated based on the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Utah Public Treasurer's Investment Fund	\$ 265,289	\$ 265,289			
Total Investments	\$ 265,289	\$ 265,289	\$...	\$...	\$...

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its risk in part by investing in the Utah Public Treasurers Investment Fund. The City also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. This further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

2. DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2006, the City had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Utah Public Treasurer's Investment Fund	\$ 265,289				\$ 265,289
Total Investments	<u>\$ 265,289</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 265,289</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. As of June 30, 2006, the City had \$265,289 invested in the Public Treasurer's Investment Fund and was held by them.

Assignment of Income

The City has assigned income from PTIF funds in enterprises activities to be recorded in the general fund.

3. RESTRICTED CASH/NET ASSETS/FUND BALANCES

During prior years, the City issued water and sewer revenue bonds. The purposes of these bonds were for the construction of water and sewer distribution systems for the City. In connection with the bond agreements, the City is required to established bond sinking and bond reserve funds. These reserve funds are to assure that adequate money is available to service debt payments as they come due.

3. **RESTRICTED CASH/NET ASSETS/FUND BALANCES (Continued)**

Also the City receives funds from the State of Utah, which is restricted to use on "C" road within the City.

Reserved amounts are shown below, along with other restricted funds.

Enterprise Funds

Water and Sewer

Sinking/Reserve Funds	\$ 193,500
	<u>\$ 193,500</u>

Governmental Funds

Class "C" Roads

	\$ 37,885
	<u>\$ 37,885</u>

4. **PROPERTY TAXES**

The property tax revenue of the City is collected and distributed by the Carbon County Treasurer as an agent of the City. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until the date paid.

As of June 30, 2006, property taxes receivable consist of 1) delinquent taxes assessed but uncollected for calendar year 2005 and earlier and 2) taxes assessed as of January 1, 2006, but are not due and payable until November 30, 2006. It is expected that all delinquencies, plus accrued interest and penalties, will be collected within a five-year period, during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

Beginning January 1, 1992, there was levied, in lieu of the ad valorem tax, an annual uniform fee based on the value of motor vehicles. The uniform fee was 1.5% of the fair market statewide value of the property, as established by the State Tax Commission. On January 1, 1999, legislation became effective which made motor vehicles weighing 12,000 pounds or less subject to an "age-based" fee that is due each time the vehicle is registered. The revenues collected in each county from the uniform fee, are distributed by the county to each taxing entity in which, the property is located in the same proportion in which, revenue collected from ad valorem real property tax is distributed. The City recognizes age-based fees as revenues when collected by the county.

5. **CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>\$ 9,337</u>	<u></u>	<u></u>	<u>\$ 9,337</u>
Total capital assets not being depreciated	<u>\$ 9,337</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 9,337</u>
Capital assets being depreciated:				
Buildings	\$ 122,758			\$ 122,758
Improvements other than buildings	121,888			121,888
Machinery and equipment	386,213		\$ 18,400	367,813
Infrastructure	<u>301,369</u>	<u></u>	<u></u>	<u>301,369</u>
Total capital assets being depreciated:	<u>\$ 932,228</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 913,828</u>
Less accumulated depreciation for:				
Buildings	\$ 83,499	\$ 4,278		\$ 87,777
Improvements other than buildings	74,897	2,259		77,156
Machinery and equipment	274,347	23,587	\$ 7,360	290,574
Infrastructure	<u>301,369</u>	<u></u>	<u></u>	<u>301,369</u>
Total accumulated depreciation	<u>\$ 734,112</u>	<u>\$ 30,124</u>	<u>\$...</u>	<u>\$ 756,876</u>
Total capital assets being depreciated, net	<u>\$ 198,116</u>	<u>\$ (30,124)</u>	<u>\$...</u>	<u>\$ 156,952</u>
Governmental activities capital assets, net	<u>\$ 207,453</u>	<u>\$ (30,124)</u>	<u>\$...</u>	<u>\$ 166,289</u>

5. **CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Water stock	\$ 441,375			\$ 441,375
Work in progress		\$ 10,000		10,000
Total capital assets not being depreciated	\$ 441,375	\$ 10,000	\$...	\$ 451,375
Capital assets being depreciated:				
Improvements other than buildings	\$ 3,124,100			\$ 3,124,100
Machinery and equipment	3,996			3,996
Total capital assets being depreciated:	\$ 3,128,096	\$...	\$...	\$ 3,128,096
Less accumulated depreciation for:				
Improvements other than buildings	\$ 310,965	\$ 76,721		\$ 387,686
Machinery and equipment	1,932	799		2,731
Total accumulated depreciation	\$ 312,897	\$ 77,520	\$...	\$ 390,417
Total capital assets being depreciated, net	\$ 2,815,199	\$ (77,520)	\$...	\$ 2,737,679
Business-type activities capital assets, net	\$ 3,256,574	\$ (77,520)	\$...	\$ 3,189,054

5. **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 10,466
Public safety	13,707
Highways and public improvements	515
Parks and recreation	4,029
Cemetery	<u>1,407</u>
Total depreciation expense - governmental activities	<u>\$ 30,124</u>
Business-type Activities:	
Water and sewer	<u>\$ 77,520</u>
Total depreciation expense - business-type activities	<u>\$ 77,520</u>
Total depreciation expense	<u><u>\$ 107,644</u></u>

6. **PENSION PLANS**

Local Governmental – Cost Sharing

Plan Description. Sunnyside City contributes to the Local Governmental Noncontributory Retirement System for employers with (without) Social Security coverage, which are all for cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement systems (Systems). Utah Retirement systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, and Public Safety Retirement System for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

6. **PENSION PLANS (Continued)**

Funding Policy. For plan members in the Local Governmental Noncontributory Retirement System, Sunnyside City is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Sunnyside City's contributions to the Noncontributory Retirement System for the years ending June 30, 2006, 2005 and 2004 were \$10,311, \$10,626 and \$10,094 respectively. The contributions were equal to the required contributions for each year.

DEFERRED COMPENSATION PLAN

457(k) Plan – The employees of Sunnyside City also participated in a 457(k) deferred compensation plan. The employees of the city made contributions in their own behalf for the years ending June 30, 2006, 2005 and 2004 were \$6,432, \$7,005 and \$7,902 respectively.

7. **LONG-TERM DEBT**

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 28,000	\$ 6,710	\$ 34,710	\$ 68,000	\$ 7,478	\$ 75,478
2008	30,000	5,170	35,170	68,000	7,011	75,011
2009	31,000	3,520	34,520	68,000	6,545	74,545
2010	33,003	1,815	34,818	69,000	6,078	75,078
2011				69,000	5,582	74,582
2012-2016				356,000	20,015	376,015
2017-2021				333,712	6,065	339,777
2022-2026				103,000	176	103,176
2027-2031				95,000		95,000
2032-2036				19,000		19,000
	<u>\$ 122,003</u>	<u>\$ 17,215</u>	<u>\$ 139,218</u>	<u>\$1,248,712</u>	<u>\$ 58,950</u>	<u>\$ 1,307,662</u>

7. **LONG-TERM DEBT (Continued)**

General Obligation and Revenue Bonds – Bonds payable at June 30, 2006, with their outstanding balances, are comprised of the following individual issues:

Governmental Activities:

General Obligation Refunding Bonds issued in the amount of \$173,000 with principal installments ranging between \$24,000 and \$33,000 beginning April 1, 2006 through April 1, 2010, interest of 5.50% per annum.	\$ 122,003
Total Governmental Activities	<u>\$ 122,003</u>

Business-type Activities:

\$235,000 Water Revenue Bonds, Series 1998, due in annual principal installments of \$9,000 to \$15,000, beginning January 1, 2000, through January 1, 2019, interest of 3.00% per annum.	\$ 165,712
\$150,000 Water Revenue Bonds, Series 2001A, due in annual principal installments of \$6,000 to \$9,000 beginning January 1, 2002, through January 1, 2022, interest of 1.95% per annum.	125,000
\$550,000 Taxable Water Revenue Bonds, Series 2001B, due in annual principal installments of \$18,000 to \$19,000, beginning January 1, 2003, through January 1, 2032, interest of 0.00% per annum.	478,000
\$635,000 Taxable Sewer Revenue Bonds, Series 2001, due in annual principal installments of \$31,000 to \$32,000, beginning February 1, 2002, through February 1, 2021, interest of 0.00% per annum.	<u>480,000</u>
Total Business-type Activities	<u>\$ 1,248,712</u>

General Obligation bonds issued for governmental activities were used for the construction and improvement of a natural gas line to and within the City limits. All revenue bonds issued for business-type activities were used for the construction, improvement, repair, and maintenance of water and sewer distribution systems for Sunnyside City.

7. **LONG-TERM DEBT (Continued)**

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
G.O. bonds Natural gas					
G.O. Refunding bonds	\$ 149,000		\$ (26,997)	\$ 122,003	\$ 28,000
Compensated absences	9,848	\$ 903		10,751	
Governmental activity long-term liabilities	<u>\$ 158,848</u>	<u>\$ 903</u>	<u>\$ (26,997)</u>	<u>\$ 132,754</u>	<u>\$ 28,000</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 1,314,712		\$ (66,000)	\$ 1,248,712	\$ 68,000
Compensated absences	5,716			5,716	
Business-type activity long-term liabilities	<u>\$ 1,320,428</u>	<u>\$...</u>	<u>\$ (66,000)</u>	<u>\$ 1,254,428</u>	<u>\$ 68,000</u>

8. **CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

According to its attorney, the City has no pending lawsuits and notice of claims filed against it as of June 30, 2006.

9. **PROPERTY TAX CALENDAR**

The City adopts, by June 22, the proposed tax rates as part of its budget for the current year, which begins July 1. If the proposed rates exceed a certified tax rate, a special public hearing must be held before the final rate is adopted. The final tax rate is assessed by the county assessor on property in the county as of July 1. The taxes are payable to the city treasurer by the end of November and are remitted to the City by the county treasurer as collected.

10. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City pays a monthly premium to Utah Local Governments Trust for its health insurance coverage. The City is insured through commercial companies for its general liability coverage. At June 30, 2006, the City had no claims or judgments filed against it related to the risks mentioned above.

11. **RECEIVABLES**

Receivables as of June 30, 2006 for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>GENERAL FUND</u>	<u>WATER AND SEWER FUND</u>	<u>TOTAL</u>
Receivables:			
Taxes	\$ 172,346		\$ 172,346
Accounts		\$ 35,150	
Miscellaneous	<u>13,742</u>	<u></u>	<u>13,742</u>
Gross receivables	\$ 186,088	\$ 35,150	\$ 186,088
Less: allowance for uncollectible accounts	<u></u>	<u>(7,886)</u>	<u>(7,886)</u>
Net receivables	<u>\$ 186,088</u>	<u>\$ 27,264</u>	<u>\$ 178,202</u>

12. **DEFICIT FUND BALANCES**

During the year ended June 30, 2006, the City has deficit fund balances in the following funds:

General Fund	\$(24,576)
--------------	------------

13. **BUDGET VARIANCES**

During the year ended June 30, 2006, the City has unfavorable expenditure variances in the following departments of the General Fund.

General Government	
City Court	\$ 942
Recorder	1,700
Buildings	1,601
Public Safety	
Police department	12,390
Animal control	57
Parks, Recreation and Public Property	
Parks	1,607

14. **USE OF ESTIMATES**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

15. **SHORT TERM BORROWING**

The short term borrowing of the City is shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
Governmental Activities				
Tax anticipation note	<u>\$...</u>	<u>\$ 108,000</u>	<u>\$ 108,000</u>	<u>\$...</u>

SUNNYSIDE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH</u>
				<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
REVENUES:				
Taxes:				
Property taxes	\$ 131,200	\$ 185,101	\$ 184,887	\$ (214)
General sales and use tax	40,000	40,000	44,225	4,225
Franchise tax	3,000	3,000	1,626	(1,374)
Cell phone tax	1,000	1,000	1,444	444
Municipal energy tax	16,000	16,000	20,246	4,246
Licenses and permits	1,700	1,700	2,568	868
Intergovernmental	28,100	28,100	35,390	7,290
Charges for services	50,700	54,500	66,825	12,325
Fines and forfeitures	750	750	1,084	334
Investment earnings	1,000	1,000	4,203	3,203
Miscellaneous revenue	5,761	1,961	73,960	71,999
Total revenues	\$ 279,211	\$ 333,112	\$ 436,458	\$ 103,346
EXPENDITURES:				
Current:				
General government:				
Legislative	\$ 18,020	\$ 18,080	\$ 12,617	\$ 5,463
City Court	25,875	25,875	26,817	(942)
Recorder	31,584	31,584	33,284	(1,700)
Treasurer	26,585	26,585	22,440	4,145
Elections	1,000	1,000	749	251
City Hall and buildings	17,600	17,600	19,201	(1,601)
Total general government	\$ 120,664	\$ 120,724	\$ 115,108	\$ 5,616
Public safety:				
Police	\$ 40,000	\$ 40,000	\$ 52,390	\$ (12,390)
Fire	28,591	26,591	20,027	6,564
Inspection		1,000		1,000
Animal control			57	(57)
Ambulance	83,275	83,275	81,093	2,182
Total public safety	\$ 151,866	\$ 150,866	\$ 153,567	\$ (2,701)

SUNNYSIDE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH</u>
				<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
Highways and public improvements:				
Highways - general	\$ 24,325	\$ 24,325	\$ 19,805	\$ 4,520
Public works administration	37,725	39,725	37,531	2,194
Total highways and public improvements	\$ 62,050	\$ 64,050	\$ 57,336	\$ 6,714
Parks, recreation, and public property:				
Parks	\$ 15,525	\$ 15,525	\$ 17,132	\$ (1,607)
Recreation	3,700	3,700	2,245	1,455
Total parks, recreation and public property	\$ 19,225	\$ 19,225	\$ 19,377	\$ (152)
Cemetery:				
Cemetery	\$ 10,575	\$ 10,575	\$ 7,928	\$ 2,647
Total cemetery	\$ 10,575	\$ 10,575	\$ 7,928	\$ 2,647
Total expenditures	\$ 364,380	\$ 365,440	\$ 353,316	\$ 12,124
Excess of revenue over (under) expenditures	\$ (85,169)	\$ (32,328)	\$ 83,142	\$ 115,470
OTHER FINANCING SOURCES (USES):				
Transfers in	\$ 93,000	\$ 39,099	\$ 80,000	\$ 40,901
Transfers out	(35,195)	(35,195)	(35,195)	
Total other financing sources (uses)	\$ 57,805	\$ 3,904	\$ 44,805	\$ 40,901
Excess of revenues and other sources over (under) expenditures and other uses	\$ (27,364)	\$ (28,424)	\$ 127,947	\$ 156,371
Fund balances - beginning of year	(152,523)	(152,523)	(152,523)	
Fund balances - end of year	\$ (179,887)	\$ (180,947)	\$ (24,576)	\$ 156,371

SUNNYSIDE CITY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>CAPITAL PROJECTS FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash	<u> </u>	<u>\$ 23,636</u>	<u>\$ 23,636</u>
Total assets	<u>\$...</u>	<u>\$ 23,636</u>	<u>\$ 23,636</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Cash deficit	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>
Fund balances:			
Unreserved, reported in:			
Debt Service fund	<u> </u>	<u>\$ 23,636</u>	<u>\$ 23,636</u>
Total fund balances	<u>\$...</u>	<u>\$ 23,636</u>	<u>\$ 23,636</u>
Total liabilities and fund balance	<u>\$...</u>	<u>\$ 23,636</u>	<u>\$ 23,636</u>

SUNNYSIDE CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:			
Assessment fees		\$ 15,967	\$ 15,967
Total revenues	\$...	\$ 15,967	\$ 15,967
EXPENDITURES:			
Debt Service:			
Principal retirement		\$ 134,997	\$ 134,997
Interest and fiscal charges		11,214	11,214
Total expenditures	\$...	\$ 146,211	\$ 146,211
Excess of revenues over (under) expenditures	\$...	\$ (130,244)	\$ (130,244)
Other financing sources (uses):			
Tax anticipate note received		\$ 108,000	\$ 108,000
Transfer in		65,195	65,195
Transfer out	\$ (80,000)		(80,000)
Total other financing sources (uses)	\$ (80,000)	\$ 173,195	\$ 93,195
Excess of revenues and other sources over (under) expenditures and other uses	\$ (80,000)	\$ 42,951	\$ (37,049)
Fund Balances - Beginning of year	80,000	(19,315)	60,685
Fund Balances - End of year	\$...	\$ 23,636	\$ 23,636

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Sunnyside City
Sunnyside, Utah 84539

RE: Report on Compliance and on Internal
Control Over Financial Reporting Based
on an Audit of Financial Statements Per-
formed in Accordance With Government
Auditing Standards

We have audited the financial statements of Sunnyside City as of and for the year ended June 30, 2006, and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

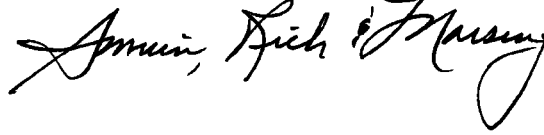
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

December 8, 2006

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Sunnyside City
Sunnyside, Utah 84539

RE: Auditors' Report on State Compliance
for State Grants

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sunnyside City for the year ended June 30, 2006 and have issued our report thereon dated December 8, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

Class "C" Road (Utah Department of Transportation)
Liquor Law Enforcement (State Tax Commission)
Community Impact Grant (DCC, Housing & Community Development Division)

The City also received the following nonmajor grants, which are not required to be audited for specific compliance requirements. However, these programs were subject to test work as part of the audit of the City's financial statements.

Fire Academy Grant (Utah Department of Public Safety)
Ambulance Training Grant (Utah Department of Public Safety)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt	Budgetary Compliance
Cash Management	Truth in Taxation and
Purchasing Requirements	Property Tax Limitation
Other Compliance Requirements	B & C Road Funds
Liquor Law Enforcement	

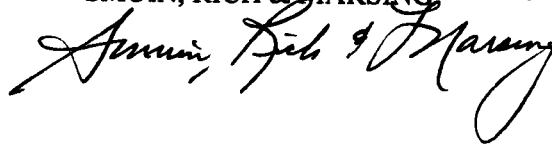
The management of Sunnyside City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Sunnyside City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2006.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written over the printed firm name.

Price, Utah

December 8, 2006

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

SMUIN, RICH & MARSING
CERTIFIED PUBLIC ACCOUNTANTS
294 East 100 South
Price, Utah 84501
Phone (435) 637-1203 • FAX (435) 637-8708

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Sunnyside City
Sunnyside, Utah 84539

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Sunnyside City for the year ended June 30, 2006.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all-inclusive.

UNFAVORABLE BUDGET VARIANCE

Utah law prohibits officers and employees of Cities to incur expenditures or encumbrances in excess of the total appropriations for budgets of the City. The City has overspent the following fund in the current fiscal year:

General Fund

General Government

Court	\$ 942
Recorder	1,700
Buildings	1,601
Public Safety	
Police Department	12,390
Animal control	57
Park, Recreation & Public Property	
Parks	1,607

We recommend the City review the expenditures and encumbrances made, and compare against the adopted budgets, to determine if the budgets of the City are being overspent. Employees who oversee departments need to evaluate the expenditures for all departments to ensure that budgets are not being overspent.

City Response - The City understands the importance of keeping expenditures within the approved budgets. The City will monitor budgets more closely to make sure they are not overspent.

DEFICIT FUND BALANCES

According to State of Utah law, Cities are not allowed to spend more funds than what they receive, by doing so, they create a deficit in the department or fund. The State Auditor has taken the position that a deficit, created by expenditures being made in excess of available funds, is illegally created debt in violation of the Utah Constitution. During the audit, we found the General Fund has a deficit fund balance for the year ending June 30, 2006.

We recommend the City take the necessary steps to remove the deficits during their next fiscal year.

City Response - The City will review the fund mentioned and take the necessary steps to eliminate the deficit. In the past year we have eliminated a deficit fund balance in the debt service fund and significantly reduced the deficit fund balance in the General Fund.

DEPOSIT REQUIREMENTS

Utah Code 51-4-2(2) states that "All public funds shall be deposited daily, whenever practicable, but not later than three days after receipt." During the audit of the financial statements for the year ended June 30, 2005, we found the City had not complied in some instances with the three-day deposit rule. Of sixty-five receipts tested, we found that twenty three were not deposited within the three-day period.

We recommend that management review the requirements for depositing public funds with employees responsible for depositing money received by the City. We also recommend the City implement procedures necessary to make sure that City employees comply with this requirement. To make sure procedures are followed, the City may need to monitor how procedures are being applied.

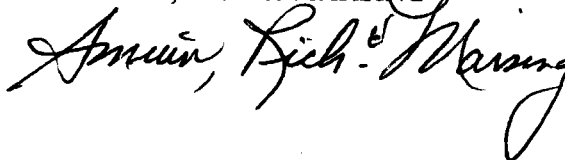
City Response - The City understands the three-day deposit requirement and will comply with this rule. The City has purchased a system from Zions bank, which allows them to scan checks and have them deposited immediately. This will allow the City to comply with the three day deposit rule.

SUMMARY

We feel the State Compliance issues and accounting related items mentioned above are some areas where the City can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING



Price, Utah

December 20, 2006



P.O. Box 69 • Sunnyside, Utah 84539 • Phone: (435) 888-4444 • Fax No.: (435) 888-0409

March 12, 2007

State of Utah
Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
P.O. Box 142310
Salt Lake City, UT 84114-2310

SUNNYSIDE CITY CORRECTIVE ACTION PLAN 2006

Sunnyside City has again failed to fall within budget compliance during Budget Year ending June 30, 2006. Although we worked really hard last year to be in compliance, we again failed. Our corrective Action Plan to bring this compliance into reality for 2007 is as follows:

Budgetary compliance in each department will be more closely monitored this year than ever before. Since we now have a new auditing firm that is willing to help us monitor and teach us what to watch for in problem areas, we are confident that we will be in compliance by year end June 30, 2007.

Our first and foremost action to correct this problem will be to more closely monitor department heads in the areas of non-compliance. Since we have just since 2005 had a justice court here in East Carbon, we have now established a figure to use as a guideline for budget amounts needed to eliminate the overage in the court budget. This area is overseen by City Recorder Sanderson. The recorder budget was also out of compliance and just needed to be monitored more closely. Close to the close of the year, all department heads will be given a printout of their actual expenses compared to budget and told that they are to curtail expenses until a new budget year if they cannot stay within their budgeted figures. City Recorder Polly Sanderson will monitor this department also. General Government Buildings was out of compliance and will be monitored more closely by City Recorder, Polly Sanderson also. The Police Department budget was based on the prior year and we did not receive any notification about an increase in this contract until about half way through the year. Mayor Bruce Andrews will monitor this contract this year and make sure we are aware of any increases and that they are included in the current year budget to avoid non-compliance. Animal control is also

a part of this and will be kept in compliance next year. The budget in this department will be increased to include additional expenses this year.

Maintenance Supervisor Michael Marquez is responsible for the Parks department. His overage was due to some grants that were received for work in the park that were not included in the budget. This was a learning experience for him and will not happen again. He is now aware of the need to monitor his budget more closely and to curtail expenses close to the end of the year if need be to stay in compliance.

All department heads will meet with the Mayor and City Recorder near the end of the budget year to determine if budget and expenses are in line, if they are not, then they will be instructed to curtail expenses until the end of budget year so that the City will be within the guidelines set by the State at the end of the year. If necessary at this time, we will adjust the budget by line items to bring it into compliance.

It is our hope that this plan will fit the requirements. Thank you for your cooperation in our attempts to learn what is necessary to become compliant.

Sincerely,

A handwritten signature in cursive script that reads "Polly A. Sanderson".

Polly A. Sanderson, City Recorder
Sunnyside City